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On July 15, 2009, the Program Evaluation Division requested four state agencies to submit brief written responses to questions, which related to findings by the State Auditor presented to the Joint Legislative Program Evaluation Committee July 6, 2009. Agencies were requested to respond by July 29. In addition, the Division requested each agency to make a 10-minute presentation and prepare for additional questions from committee members on August 3. The State Auditor will also appear and may make a statement and will be available for member questions. The Program Evaluation Division did not request the Auditor to submit a written response.

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**Attorney General  
Department of Justice**

**Don Teeter, Office of the Attorney General.** Julia White, Senior Policy Advisor for the department said that Mr. Teeter is their office's attorney assigned to Property Control. The department preferred that Mr. Teeter provide answers when speaking to the committee instead of providing written answers to the following questions:

**Question 1. What are the constitutional and statutory responsibilities of your office relative to contracts entered into by state agencies and institutions?**

**Question 2. Describe any involvement that your office had concerning the terms of the contract between the State Health Plan and Blue Cross Blue Shield of North Carolina criticized by the State Auditor.**

**Question 3. Based upon the findings of the State Auditor about the terms of the Blue Cross contract, what are your recommendations for corrective legislation or administrative actions?**

**Question 4. Do you have any suggestions for remedying the problems concerning the state purchasing contract with Office Depot criticized by the State Auditor?**

**Question 5. Do you have any suggestions for legislation to address deficiencies in the body of state law that hinder your office's defense or prosecution of matters affecting state purchasing contracts such as the Office Depot contract and large service contracts such as the state contract with Blue Cross?**

## **State Health Plan**

**Jack W. Walker, Executive Administrator, State Health Plan.**

**Overview:** The State Health Plan for Teachers and State Employees provides answers to questions and an update on steps the Plan has taken to correct deficiencies noted in the April 2009 Performance Audit focusing on purchasing and contracting issues.

**(Note:** 2009 Audit findings reflect contracts by former Plan administration.)

2009 Performance Audit Findings by Audit Team; The Administrative Service Agreement with BCBSNC became effective in February 2006. The Auditor noted that the contract is cost plus, lacks requirements for reporting of Plan's administrative costs, and contains weak audit provisions.

The following answers are provided to the Program Evaluation Division's Questions (Resource: Plan's full response to Auditor's Report.)

**Question 1: Provide the date or time frame of events relative to drafting and approval of the existing administrator contract between the State of North Carolina and Blue Cross Blue Shield of North Carolina. For each event, identify by name and position title, the individuals who drafted, were consulted, or approved the contract language.**

Highlights of Plan's Response: In 2005, the Plan obtained approval from its Legislative Oversight Committee and Board of Trustees to create a PPO option through a sole source contract, pursuant to NGCS 135-43(b). The former Executive Administrator signed the contract on Feb. 28, 2006. The Deputy Executive Administrator and the Director of Operations and Strategic Planning represented the Plan in contract negotiations.

**Question 2: Considering the criticisms of the State Auditor of the terms of the contract, what corrective actions have or will be taken? If actions are in progress or planned, provide a timetable for implementation.**

Highlights of Plan's Response: The Plan has instituted a standard policy for contracting; is now seeking input from other appropriate state agencies regarding future contracts; negotiated improvements in the current PPO administrative agreement; and will be conducting new audits of administrative costs and operational efficiency.

**Question 3: Do you have any suggestions for legislation that may be necessary for corrective actions?**

Plan's Response: The State Health Plan does not have any legislative corrections at this time.

## **Department of Administration**

**Mr. James Staton, Department of Administration, State Purchasing Officer**

**Question 1: What are the statutory responsibilities of your office relative to contracts entered into by state agencies and institutions?**

- (a) to solicit competitive bids for purchase or lease of supplies, materials, and equipment required by State departments, institutions, and agencies [G.S 143-49(1)]
- (b) to establish and enforce specifications for such solicitations [G.S 143-49(2)]
- (c) to contract by bidding or other means all contractual services required by State departments, institutions, and agencies, and where such contract is over \$100,000 AG assistance is required. [G.S. 143-49(3)]
- (d) Certain entities have been exempted from G. S. 143 such as, NC Education Lottery Commission, Public Schools, The General Assembly, UNC system, NC Community College System, the Zoological Park, and The Administrative Office of the Courts, etc. This is not an all inclusive list of entities exempted from G.S. 143.

**Question 2: Describe any involvement that your office had concerning the terms of the contract between the State Health Plan and Blue Cross Blue Shield of North Carolina criticized by the State Auditor.**

The division did not have any involvement in the contract between the SHP and Blue Cross Shield of North Carolina.

**Question 3: Based upon the findings of the State Auditor about the terms of the Blue Cross contract, what are your recommendations for corrective legislation or administrative actions?**

The division has not seen the contract. Based on the audit findings, the specifications should be reviewed. Future contracts of this nature should involve the Attorney's General Office.

**Question 4: What administrative changes have been implemented by your office to remedy the problems concerning the state purchasing contract with Office Depot reported by the State Auditor? If any actions are in progress or planned, provide a timetable for implementation.**

- (a) The correct contract pricing of all 14,500 items is known and controlled by the P&C contract administrator, based on published MSRP on CDs and unchanging contract discounts.
- (b) No MSRPs are under the control of any contractor.

- (c) Awarding to four contractors vs. single contractor provides for effective punitive measures if a contractor deviates from contract (remove contractor for minimum 30 days).
- (d) Contract price update schedule controlled by P&C, occurs every 90 days, effective exactly same date, same hour, for all contractors.
- (e) Result: The new contract was implemented Feb 9, 2009, and there are no more pricing irregularities. Several states have asked for a copy of the IFB. An international office supplies trade magazine reported on our contract.

**Question 5. Do you have any suggestions for legislation to address deficiencies in the body of state law that hinder your office's oversight over state purchasing contracts such as the Office Depot contract and large service contracts such as the state contract with Blue Cross?**

The Division stands ready to participate in any legislative review of purchasing procedures, statutes or exemptions that can enhance the state's purchasing ability and oversight to deliver the best value for the State.

The Division has identified through its ongoing strategic planning process several tools, including specific software for contract monitoring where electronic catalogs are involved and web-based training opportunities for agency purchasers. We suggest that the General Assembly review of the number of exemptions granted to state agencies for engaging in service contracts.

## **Department of Health and Human Services**

DMA Actions in Response to State Auditor report –  
PER-2008-7238  
DMA Contract Administration – Value Options contract

**Question 1. What corrective actions have or will be taken by DHHS to remedy problems identified by the State Auditor report [PER-2008-7238](#)? If any actions are in progress or planned, provide a timetable for implementation.**

**Corrective Actions Taken:**

- Appropriate documentation has been identified and is maintained on an on-going basis to reflect the original projected costs of the contract per year along with the actual reviews provided and the costs incurred.
- In the Fall of 2008, DMA began using RAT STAT software (also used by the OIG) with the assistance of the DHHS Internal Auditors, to sample reviews identified as duplicates in the monthly invoices and data received from Value Options.
- In the winter of 2008, a database was developed to handle over 60,000 lines of data received each month by DMA from Value Options in support of their monthly invoice. This database summarizes the data to ensure the invoice and data support each other. Additionally, logic has been built into the database to identify duplicate billings. This logic was identified based on discussions with Value Options and DMA Clinical Policy staff. There is documentation for the database as well as a checklist by which these monthly reviews of the Value Options invoice and billing data are reviewed. On-going discussions are conducted between DMA and Value Options.
- Even more in depth review processes of the monthly performance reports are being developed.

As a result of the process reviews with Value Options, Value Options' invoicing and billing are continuing to improve and the withhold amounts on their invoices has decreased to 3%. DMA findings during these reviews have resulted in Value Options providing more detail to support their billings and have resulted in Value Options implementing changes to their system to provide a better audit trail. Any adjustments found are handled through the monthly invoices.

**Question 2. Do you have any suggestions for legislation that may be necessary for corrective actions?**

*PED Note: No legislative recommendations were provided*